

**REPORT OF THE AUDIT OF THE  
MARTIN COUNTY  
CLERK**

**For The Year Ended  
December 31, 2011**



**ADAM H. EDELEN  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE MARTIN COUNTY CLERK**

**For The Year Ended  
December 31, 2011**

The Auditor of Public Accounts has completed the Martin County Clerk's audit for the year ended December 31, 2011. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees decreased by \$28,127 from the prior year, resulting in excess fees of \$32,632 as of December 31, 2011. Revenues decreased by \$953,638 from the prior year and expenditures decreased by \$925,511.

#### **Debt Obligations:**

Capital lease principal agreements totaled \$8,244 as of December 31, 2011. Future principal and interest payments of \$10,305 are needed to meet these obligations.

#### **Report Comments:**

- 2011-01 The County Clerk Did Not Remit All Deed Transfer Tax Payments To The Fiscal Court
- 2011-02 The County Clerk Should Prohibit The Practice Of Cashing Checks From Office Funds
- 2011-03 The County Clerk's Office Lacks Adequate Segregation Of Duties
- 2011-04 The County Clerk Had \$6,172 In Disallowed Expenditures
- 2011-05 The County Clerk Did Not Reconcile Bank Statements On A Monthly Basis
- 2011-06 Deposits Should Be Made Intact
- 2011-07 Invoices Should Be Stamped Paid Or Otherwise Effectively Cancelled To Show Payment
- 2011-08 The County Clerk Should Improve Payroll Procedures
- 2011-09 The County Clerk's 2012 Fee Account Has Undeposited Cash Receipts

#### **Deposits:**

The County Clerk's deposits were insured and collateralized by bank securities or bonds.



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**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Kelly Callahan, Martin County Judge/Executive  
The Honorable Carol Sue Mills, Martin County Clerk  
Members of the Martin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Martin County, Kentucky, for the year ended December 31, 2011. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2011, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 19, 2012 on our consideration of the Martin County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Kelly Callaham, Martin County Judge/Executive  
The Honorable Carol Sue Mills, Martin County Clerk  
Members of the Martin County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2011-01 The County Clerk Did Not Remit All Deed Transfer Tax Payments To The Fiscal Court
- 2011-02 The County Clerk Should Prohibit The Practice Of Cashing Checks From Office Funds
- 2011-03 The County Clerk's Office Lacks Adequate Segregation Of Duties
- 2011-04 The County Clerk Had \$6,172 In Disallowed Expenditures
- 2011-05 The County Clerk Did Not Reconcile Bank Statements On A Monthly Basis
- 2011-06 Deposits Should Be Made Intact
- 2011-07 Invoices Should Be Stamped Paid Or Otherwise Effectively Cancelled To Show Payment
- 2011-08 The County Clerk Should Improve Payroll Procedures
- 2011-09 The County Clerk's 2012 Fee Account Has Undeposited Cash Receipts

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Martin County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen  
Auditor of Public Accounts

October 19, 2012



MARTIN COUNTY  
CAROL SUE MILLS, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2011

Revenues

State Grant - Libraries and Archives	\$	9,300
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HB 537 Revenue Supplement		61,283
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State Fees For Services		3,504
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Fiscal Court		1,257
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$ 340,388	
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Usage Tax	1,044,335	
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Tangible Personal Property Tax	647,149	
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Other-

Fish and Game Licenses	5,737	
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Marriage Licenses	3,656	
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Deed Transfer Tax	7,755	
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Delinquent Tax	295,457	2,344,477
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	6,624	
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Real Estate Mortgages	5,170	
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Chattel Mortgages and Financing Statements	31,836	
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Powers of Attorney		
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Affordable Housing Trust	7,854	
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All Other Recordings	15,219	
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Charges for Other Services-

Copywork	5,123	71,826
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Other:

Notary Fees	355	
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Overpayments	7,119	
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Miscellaneous	5,985	13,459
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Interest Earned		397
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Total Revenues		2,505,503
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The accompanying notes are an integral part of this financial statement.

MARTIN COUNTY  
 CAROL SUE MILLS, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2011  
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 232,492

Usage Tax 1,006,450

Tangible Personal Property Tax 328,916

Licenses, Taxes, and Fees-

Fish and Game Licenses 5,590

Delinquent Tax 27,420

Legal Process Tax 8,962

Affordable Housing Trust 7,818 \$ 1,617,648

Payments to Fiscal Court:

Tangible Personal Property Tax 85,893

Delinquent Tax 26,569

Deed Transfer Tax 7,368 119,830

Payments to Other Districts:

Tangible Personal Property Tax 209,797

Delinquent Tax 153,620 363,417

Payments to Sheriff 22,280

Payments to County Attorney 39,486

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 109,858

Part-Time Salaries 24,629

Contracted Services-

Contract Labor 3,788

Advertising 755

Microfilming and Indexing 13,985

Materials and Supplies-

Office Supplies 24,212

The accompanying notes are an integral part of this financial statement.

MARTIN COUNTY  
CAROL SUE MILLS, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2011  
(Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges-

Libraries and Archives Grant	\$	9,300
Conventions and Travel		4,767
Computer Expenses		4,666
Dues		5,192
Postage		1,873
Bank Charges		105
Candidate Filing Fees		190
Refunds		6,109
Tax Bill Preparation		1,611
Miscellaneous		9,189

Capital Outlay-

Office Equipment		<u>3,387</u>	\$	223,616
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Debt Service:

Lease Purchases		<u>8,244</u>
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Total Expenditures \$ 2,394,521

Less: Disallowed Expenditures

Contract Labor	2,574
Miscellaneous Office Expense	1,224
Miscellaneous Election Expense	2,013
Travel	111
Office Repairs	<u>250</u>

Total Disallowed Expenditures 6,172

Total Allowable Expenditures 2,388,349

Net Revenues 117,154

Less: Statutory Maximum 77,243

Excess Fees 39,911

Less: Expense Allowance	3,600	
Training Incentive Benefit	<u>3,679</u>	<u>7,279</u>

Excess Fees Due County for 2011 32,632

Payment to Fiscal Court - July 12, 2012 17,682

Balance Due Fiscal Court at Completion of Audit \$ 14,950

The accompanying notes are an integral part of this financial statement.

MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2011 services
- Reimbursements for 2011 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2011

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2011  
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent for the first six months and 18.96 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2011  
(Continued)

Note 3. Deposits

The Martin County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Martin County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grant

The Martin County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$9,300 in calendar year 2010. The county clerk expended \$9,300 during the calendar year. The grant balance was \$0 as of December 31, 2011.

Note 5. Lease

The Office of the County Clerk was committed to a lease agreement with Software Management for computer software. The agreement requires a monthly payment of \$687 for 60 months to be completed on January 30, 2013. The total balance of the agreement was \$10,305 as of December 31, 2011.

MARTIN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2011  
(Continued)

Note 6. Subsequent Event

The County Clerk contacted the State Auditor's office with information in regards to undeposited cash receipts from her office funds. We have reviewed this subsequent information for calendar year 2012 and our work found the following undeposited receipts:

- January 9, 2012               \$5,580
- February 7, 2012           \$5,435
- April 28, 2012             \$3,487
- May 9, 2012                 \$ 223
- May 12, 2012               \$ 882
- July 3, 2012                \$ 296
- July 14, 2012              \$ 673

This matter has been referred to the Kentucky State Police for further investigation.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Kelly Callaham, Martin County Judge/Executive  
The Honorable Carol Sue Mills, Martin County Clerk  
Members of the Martin County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Martin County Clerk for the year ended December 31, 2011, and have issued our report thereon dated October 19, 2012. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the Martin County Clerk's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2011-03, 2011-04, 2011-05, 2011-06, 2011-07, 2011-08, and 2011-09 to be material weaknesses.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Martin County Clerk's financial statement for the year ended December 31, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2011-01 and 2011-02.

The Martin County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Clerk's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Martin County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen  
Auditor of Public Accounts

October 19, 2012

## COMMENTS AND RECOMMENDATIONS



MARTIN COUNTY  
CAROL SUE MILLS, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2011

STATE LAWS AND REGULATIONS:

2011-01 The County Clerk Did Not Remit All Deed Transfer Tax Payments To The Fiscal Court

The County Clerk Collected deed transfer tax in accordance with KRS 142.050, however, she did not remit the total due to the county. The county is due an additional \$4,580 for deed transfer tax for calendar year 2011. KRS 142.050(4) states, "The county clerk shall collect the amount due and certify the date of payment and the amount of collection on the deed. The county clerk shall retain five percent (5%) as his fee for collection and remit the balance every three (3) months to the county treasurer, who shall deposit the money in the county general fund." Failure to make these payments does not allow the county to utilize these funds. We recommend the County Clerk pay \$4,580 to the county treasurer. We also recommend quarterly deed transfer tax payments be made as required in the future.

*County Clerk's Response: A payment in the amount of \$4,580 paid by check to Martin County Fiscal Court on 10-26-12.*

2011-02 The County Clerk Should Prohibit The Practice Of Cashing Checks From Office Funds

During our audit, we noted that personal checks and/or third party checks were cashed from the clerk's official bank account. When this occurs, the receipts deposited do not agree with the original form of cash and checks received by the clerk's office for daily collections. The State Local Finance Officer, under the authority of KRS 68.210, has established minimum accounting requirements that include depositing receipts intact on a daily basis and reconciling deposits to batched receipts. The clerk should have deposited receipts intact (i.e., in the same form as they were collected) as required by the State Local Finance Officer. Furthermore, the practice of cashing checks whether personal or third party should have been prohibited as such unrelated receipt transactions distorts the cash audit trail.

*County Clerk's Response: We no longer practice cashing personal checks for anyone for any reason.*

MARTIN COUNTY  
CAROL SUE MILLS, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2011

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2011-03 The County Clerk's Office Lacks Adequate Segregation Of Duties

The County Clerk's internal control structure lacked an adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. The Clerk's bookkeeper has access to cash, works up the daily bank deposit, posts to the receipts and disbursements ledgers and reconciles the bank account. These control deficiencies could adversely affect the Clerk's ability to record, process, summarize, and report accurate financial information. Good internal controls dictate the same employee should not receive payments, make deposits, and prepare checks for payment.

If, due to a limited number of staff, it is not possible to segregate duties strong oversight over these areas should occur and involve an employee not currently performing any of those functions. Additionally, the County Clerk could provide the oversight. If the County Clerk does implement compensating controls, these should be documented on the appropriate source documentation. Examples of possible compensating controls include the following:

- The Clerk could periodically compare the daily checkout sheet to the deposit slip and receipts ledger. Any discrepancies should be resolved and the review should be documented by initialing and dating the deposit ticket, the daily checkout sheet, and the receipts ledger.
- The County Clerk could compare total collections per monthly and weekly reports to the daily checkout sheets. Any discrepancies should be resolved and the review should be documented by initialing and dating the report.
- The County Clerk could compare cancelled listed on the bank statement to the amounts recorded in the disbursements ledger. Any discrepancies should be resolved and the review should be resolved and the review should be documented by initialing and dating the bank disbursements ledger.

We recommend the County Clerk immediately implement controls and oversight over the financial activities of her office to ensure errors are prevented or detected in a timely manner.

*County Clerk's Response: We have implemented new procedures over our financial activities. We have issued keys for the new locks on all our cash drawers. Everyone has their own cash bag with a lock and key. A safe was purchased to keep all our cash. Only the Clerk and the Chief Deputy know the combination. We have a new bookkeeper and another employee that issues checks and another employee who takes the deposit to the bank.*



MARTIN COUNTY  
CAROL SUE MILLS, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2011

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2011-04 The County Clerk Had \$6,172 In Disallowed Expenditures

The clerk paid \$5,512 to individuals as contract laborers for office repairs, election duties and other miscellaneous jobs. After reviewing the clerk's records, we found that she did not maintain any supporting documentation and there was no evidence of actual work performed. We also found an additional \$660 of disallowed expenditures that did not have supporting documentation or were for unnecessary items. In *Funk vs. Milliken*, 317 S. W.2d 499 (KY 1958), Kentucky's highest court reaffirmed the rule that county fee officials' expenditures of public funds will be allowable only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal in nature. We recommend the County Clerk only expend fee account monies for allowable purposes and have the proper supporting documentation for each purchase. We also recommend the County Clerk deposit personal funds in the amount of \$6,172 for the disallowed expenditures. This matter has been referred to the Kentucky State Police for further investigation.

*County Clerk's Response: Referring to the disallowed expenditures – an employee of this office [employee name redacted] has been terminated because she is suspected of writing checks for contract labor without documentation. The recommendation to issue a check in the amount of \$6,172 has been written to the Martin County Fee account for 2011.*

2011-05 The County Clerk Did Not Reconcile Bank Statements On A Monthly Basis

The County Clerk did not reconcile all bank statements on a monthly basis. Auditor observed that the 2011 Fee Account was not reconciled timely, the Direct Deposit Account was not reconciled and had unopened bank statements from August 2011 to December 2011, the Usage Tax Account was not reconciled for any month during the year, and the Fish and Game Account was not reconciled for any month during the year. This lack of controls over reconciliations increase the risk that errors may occur and go undetected. We recommend the County Clerk reconcile bank statements monthly to the ledgers and/or financial statements.

*County Clerk's Response: As of August 2012 all bank accounts are reconciled upon receipt of bank statements each month.*

MARTIN COUNTY  
CAROL SUE MILLS, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2011

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2011-06 Deposits Should Be Made Intact

Deposits are not made intact on a daily basis. Checks received from a current day's transactions are sometimes cashed out of the prior day's bank deposit. Employees do this because there is an adequate amount of cash on hand to make change. As a result, the total deposit matches the daily checkout sheet, however, the actual breakdown of cash, coins, and checks does not agree to the daily checkout sheet. Deposits should reflect the same amount of cash and checks that were collected during a day's transactions. These current practices leave receipts vulnerable to misappropriation or theft and can result in undeposited receipts.

The auditor recommends that each drawer begin the day with an adequate amount of small bills and coins for change. Each Deputy Clerk should monitor their drawer throughout the day. When a shortage of small bills and/or coins is noticed an employee should go to the bank in order to exchange larger bills received through the day for smaller bills and coins.

*County Clerk's Response: As I stated in recommendation 2011-03 – We all have cash bags with keys and locks new locks on all cash drawers. Each deputy and Clerk maintains \$150 in their cash bags for the day's work. My chief deputy can do the deposit for the previous work day by early morning by having these recommendations in place.*

2011-07 Invoices Should Be Stamped Paid Or Otherwise Effectively Cancelled To Show Payment

During the audit, the auditor observed that, while copies of checks are stapled to their respective invoices, they are not always stamped paid or otherwise effectively cancelled to show payment. It is important to effectively cancel all paid invoices to lessen the chance of making duplicate payments. We recommend that all paid invoices be effectively cancelled to show payment.

*County Clerk's Response: New paid stamps were purchased and are now being used on invoices as they are paid. The new stamps include dates and check numbers for each payment.*

2011-08 The County Clerk Should Improve Payroll Procedures

Our test of payroll revealed employees do not sign time cards at the end of each week. Furthermore, there was no documentation of supervisory review and approval of time cards. Time cards cover one week. At the end of each week, employees should sign (or initial) time cards indicating the accuracy of time reported and the employee's agreement with time reported. A supervisory (or review) employee should sign (or initial) time cards indicating the time cards have been reviewed for accuracy and time worked was approved. We recommend the Clerk improve payroll procedures by having each employee and a supervisory employee sign completed time cards.

*County Clerk's Response: First I would like to say on my behalf, that we are the only office in our courthouse with a time clock.*

MARTIN COUNTY  
CAROL SUE MILLS, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2011

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2011-09 The County Clerk's 2012 Fee Account Has Undeposited Cash Receipts

The County Clerk's 2012 Fee Account has undeposited receipts totaling \$16,576. The auditors examined the clerk's 2012 fee account after a phone call from the County Clerk to report cash shortages. Our review of the 2012 account was for the period January 1, 2012 through August 31, 2012 and was not an audit, however, our work for this time period found the following undeposited receipts:

- January 9, 2012               \$5,580
- February 7, 2012           \$5,435
- April 28, 2012             \$3,487
- May 9, 2012               \$ 223
- May 12, 2012             \$ 882
- July 3, 2012               \$ 296
- July 14, 2012             \$ 673

Our review found four checks, which were originally listed on the January 9, 2012 daily checkout sheet, were actually deposited at later dates to cover shortages for those daily deposits. Also, we found a deposit made on April 17, 2012 in the amount of \$5,435. This deposit was presented as reimbursement of the undeposited receipts on February 7, 2012. However, we obtained the deposit detail from the bank and determined the deposit actually consisted of \$4,070 of delinquent tax receipts for April 12, 2012, a \$1,362 License fee receipt for April 16, 2012 business and \$3 in cash that was used to cover the remaining deposit; therefore no reimbursement was actually made. We recommend the County Clerk immediately implement controls and oversight over the financial activities of her office to ensure errors are prevented or detected in a timely manner. This matter has been referred to the Kentucky State Police for further investigation.

*County Clerk's Response: In reviewing the shortages on deposits, I had to terminate another employee [employee name redacted] who confessed to taking deposits from my office. Since this has happened we have new procedures about how the deposits are made explained in recommendation 2011-03.*

